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**AMENDED STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

Arizona Corporation Commission

DOCKETED 3 50 PM '99

**Application for a Certificate of Convenience and Necessity and for
Determination that Services of the Applicant are Competitive**

**Applicant: TransAmerican Telephone, Inc.
Docket No: T-03402A-97-0386**

DOCKETED BY

On September 25, 1997, the Applicant filed an application for a Certificate of Convenience and Necessity (CC&N) to resell local exchange services in the State of Arizona.

Article XV of the Arizona Constitution and the Arizona statutes governing public service corporations give the Commission full power to regulate the State's public service corporations. Inherent in those powers is the authority to certificate public service corporations to provide competitive telecommunications services and establish just and reasonable rates for these services. The Commission has adopted rules, Title 14, Chapter 2, Article 11 of the Arizona Administrative Code (Competitive Telecommunications Services rules), as a framework for processing applications to provide competitive telecommunications services.

Staff reviews such applications and makes a recommendation to the Commission that the application be approved, conditionally approved, or denied. In arriving at its recommendation, Staff assesses the following criteria: a) technical and managerial capability of the Applicant, b) financial capability, c) tariff structure, d) complaint history of the Applicant, and e) whether the Applicant's proposed rates will be competitive, just and reasonable.

An "X" marked in the following boxes indicates that the information filed by the Applicant has met Staff's requirements regarding the following criteria:

TECHNICAL AND MANAGERIAL SECTION

- ☒ **The Applicant has sufficient technical and managerial capabilities to resell local exchange service in the State of Arizona.**

The applicant is approved to resell local exchange service in Alabama, California, New York, Oklahoma, and Texas. The applicant has a resale agreement with U S West Communications, Inc. (Docket No. T-03402A-97-0510) that has not yet been approved by the Commission. Based on this information, Staff has concluded that the applicant has sufficient technical and managerial capabilities to provide resold local exchange service,

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but must have a Commission approved resale agreement before being approved to resell local exchange service in Arizona.

FINANCIAL SECTION

- ☒ The Applicant has sufficient financial capabilities to resell local exchange service in the State of Arizona.

The Applicant has provided unaudited financial statements for the nine months ended September 30, 1998. These financial statements indicate that the Applicant had current assets of \$12,491, total assets of \$13,491, and liabilities totaling \$1,944. Stockholders' equity totaled \$11,547 and retained earnings were \$4,725. The Applicant had a net income of \$5,822 on sales of \$197,024. Based on this information, Staff believes the Applicant lacks the financial resources necessary to offer competitive telecommunications services in Arizona.

Since this Applicant does not appear to have sufficient financial resources, Staff recommends the following: 1) that the Applicant procure a performance bond equal to the expenses needed to cover 60 days service to its customers; 2) the amount of the performance bond must be increased if at any time it would be insufficient to cover 60 days service to its customers; 3) if the Applicant desires to discontinue service it must file an application with the Commission pursuant to A.A.C. R14-2-1107; 4) the Applicant must notify each of its customers and the Commission 60 days prior to filing A.A.C. R14-2-1107; 5) failure to meet this requirement will result in forfeiture of the Applicant's performance bond; and, 6) if after one year, the Applicant desires to discontinue the performance bond, it must file information with Staff that demonstrates the Applicant's financial viability. Staff will review the information and provide the Applicant its decision concerning financial viability within 30 days of receipt of the information.

Proof of the above mentioned performance bond should be docketed within 60 days of the filing of this Staff Report. Staff recommends the denial of the application without further Commission proceedings, unless the Applicant or another party requests a hearing, if the applicant fails to file proof within the time provided. In the event the Applicant ceases to do business in Arizona, Staff believes that the additional financial requirements, along with A.A.C. R14-2-1107 are sufficient to protect the Applicant's customers.

TARIFF SECTION

- ☒ The Applicant's tariff fulfils the requirements of the Commission.

The Applicant has filed a tariff with the Commission. Staff has determined that the Applicant's tariff fulfils the Commission requirements.

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COMPLAINT SECTION

- ☒ **Complaints against the Applicant (if any) are not sufficient to deny the application to resell local exchange service in the State of Arizona.**

The Applicant has neither had an application for service denied, nor revoked in any state. There are, and have been, no formal complaint proceedings involving the Applicant, nor have there been any civil or criminal proceedings against the Applicant. Consumer Services reports no complaint history within Arizona.

COMPETITIVE SECTION

- ☒ **The Applicant's proposed rates appear competitive, just, and reasonable.**

The Applicant is a reseller of services it purchases from other telecommunications companies. It is not a monopoly provider of service nor does it control a significant portion of the telecommunications market. The Applicant cannot adversely affect the local exchange market by restricting output or raising prices. In addition, the entities from which the Applicant buys bulk services are technically and financially capable of providing alternative services at comparable rates, terms, and conditions. Staff has concluded that the Applicant has no market power and that the reasonableness of its rates will be evaluated in a market with numerous competitors.

The Commission provides pricing flexibility by allowing competitive telecommunication service companies to price their services at or below the maximum rates contained in their tariffs as long as the pricing of those services complies with A.A.C. R14-2-1109. The Commission's rules require the Applicant to file a tariff for each competitive service that states the maximum rate as well as the effective (actual) price that will be charged for the service. Staff recommends that the Applicant's competitive services be priced at the rates proposed by the Applicant in its most recently filed tariffs. In the event that the Applicant states only one rate in its tariff for a competitive service, Staff recommends that the rate stated be the effective (actual) price to be charged for the service as well as the service's maximum rate. Any changes to the Applicant's effective price for a service must comply with A.A.C. R14-2-1109.

Minimum and Maximum Rates

A.A.C. R14-2-1109.A. provides that minimum rates for the Applicant's competitive services are the Applicant's total service long run incremental costs of providing the services. The Applicant's maximum rates should be the maximum rates proposed by the Applicant in its most recent tariffs on file with the Commission. Any future changes to the maximum rates in the Applicant's tariffs must comply with A.A.C. R14-2-1110.

*Staff Review of Application for Local Exchange Service Reseller CC&N***STAFF RECOMMENDATIONS**

Staff has reviewed the application for a CC&N to offer local exchange service as a reseller. Based on its evaluation of the Applicant, Staff makes the following recommendations:

The application for a CC&N should be approved subject to any conditions listed above and A.A.C. R14-2-1106.B..

The Applicant's local exchange service offering should be classified as competitive pursuant to A.A.C. R14-2-1108.

The Applicant's competitive services should be priced at the effective rates set forth in the Applicant's tariffs. The maximum rates for these services should be the maximum rates recorded in the Applicant's tariffs. Any future changes to the maximum rates in the Applicant's tariffs must comply with A.A.C. R14-2-1110. The minimum rates for the Applicant's competitive services should be the Applicant's long run incremental costs of providing those services set forth in A.A.C. R14-2-1109.

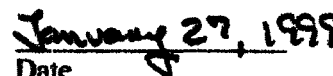
The Applicant should be required to comply with the Commission's rules and modify its tariffs to conform to these rules, if it is determined that there is a conflict between the Applicant's tariffs and the Commission's rules.

This application may be approved without a hearing pursuant to A.R.S. § 40-282.

This amended staff report supercedes the one filed on October 30, 1998.



Ray T. Williamson
Acting Director
Utilities Division


Date

Originator: Kevin Mosier

Date: January 25, 1999